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EX PARTE OR LATE FILED

USWEST

BB Nugent
Executive Director
Federal Regulatory

EX PARTE

November 19, 1998

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
1919 M Street, NW, Room 222, SC-1170
Washington, DC 20554

RE: CC Docket No. 96-128, In the Matter of Implementation of the
Pay Telephone Reclassification and Compensation Provisions of
the Telecommunications Act of 1996

Dear Ms. Salas:

Today, David Anastasi, Dan Lanksbury and the undersigned, representing U S WEST, met with Glenn Reynolds and Craig Stroup of the Common Carrier Bureau regarding the item captioned above. The attached material served as the basis for the discussion.

In accordance with Section 1.1206(a)(2) of the Commission's rules, an original and one copy of this letter and the attachment are being filed with your office for inclusion in the record of this proceeding.

Acknowledgment and date of receipt of this submission is requested. A duplicate of this letter is provided for this purpose.

Sincerely,
BB Nugent

Attachment

cc: Mr. Glenn Reynolds
Mr. Craig Stroup

No. of Copies rec'd 0+1
List ABCDE



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Agenda

- Introduction
- Profile of U S WEST Public Access
Solutions & Smart Card Division
- Why we are here
- Corporate Realities
- Marketplace Conditions
- Marketplace Realities
- Conclusion

Profile of Public Access Solutions

- 680 Management & Occupational Employees
- Maintains approximately 113,000 payphones across 14 states
- Payphones and Associated Paid Access products generate \$200 million annually

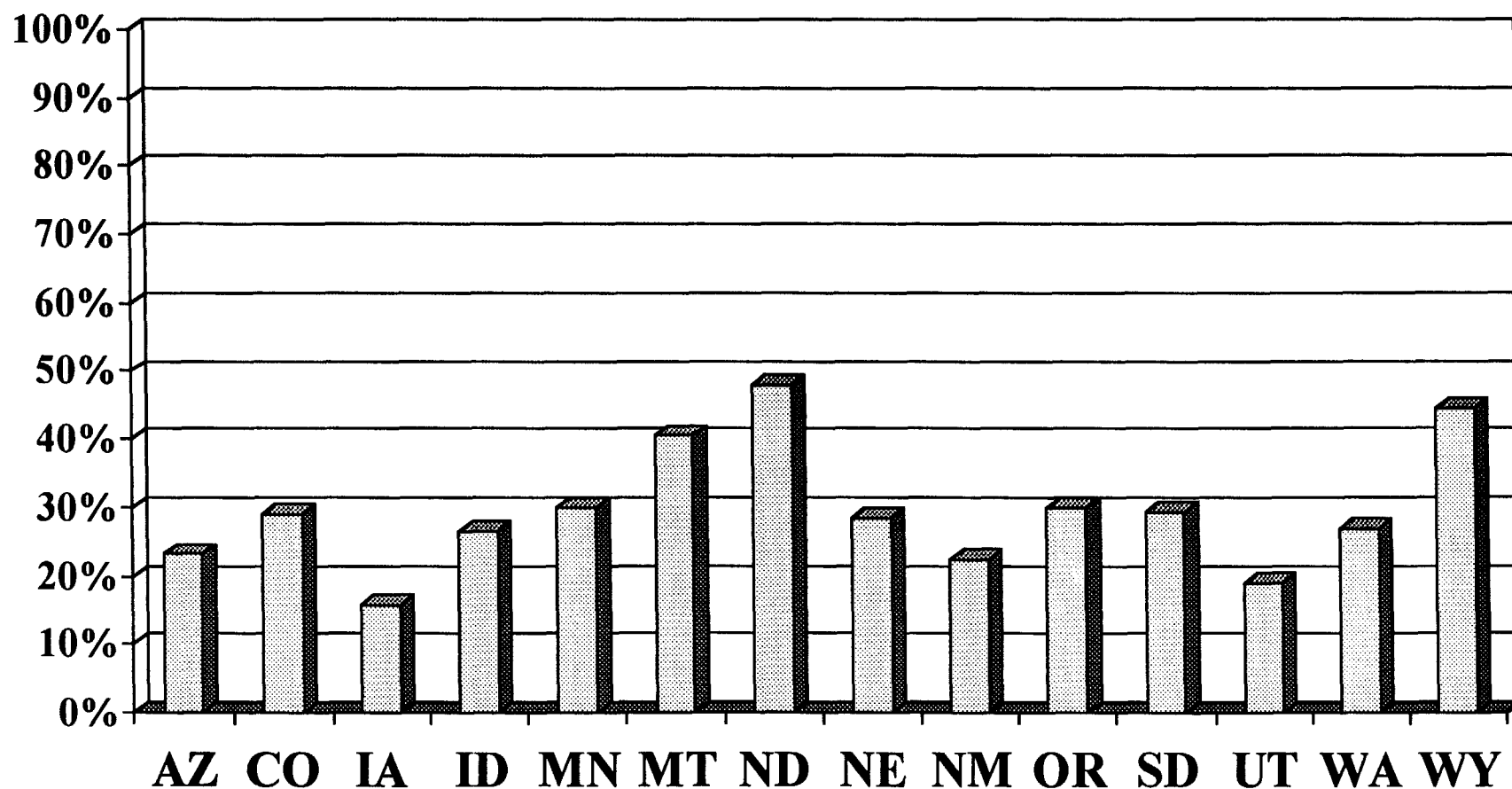
Section 276 - Why we are here;

“ In order to promote competition among payphone service providers and promote the widespread deployment of payphone services to the benefit of the general public...”

Section 276 - Why we are here;

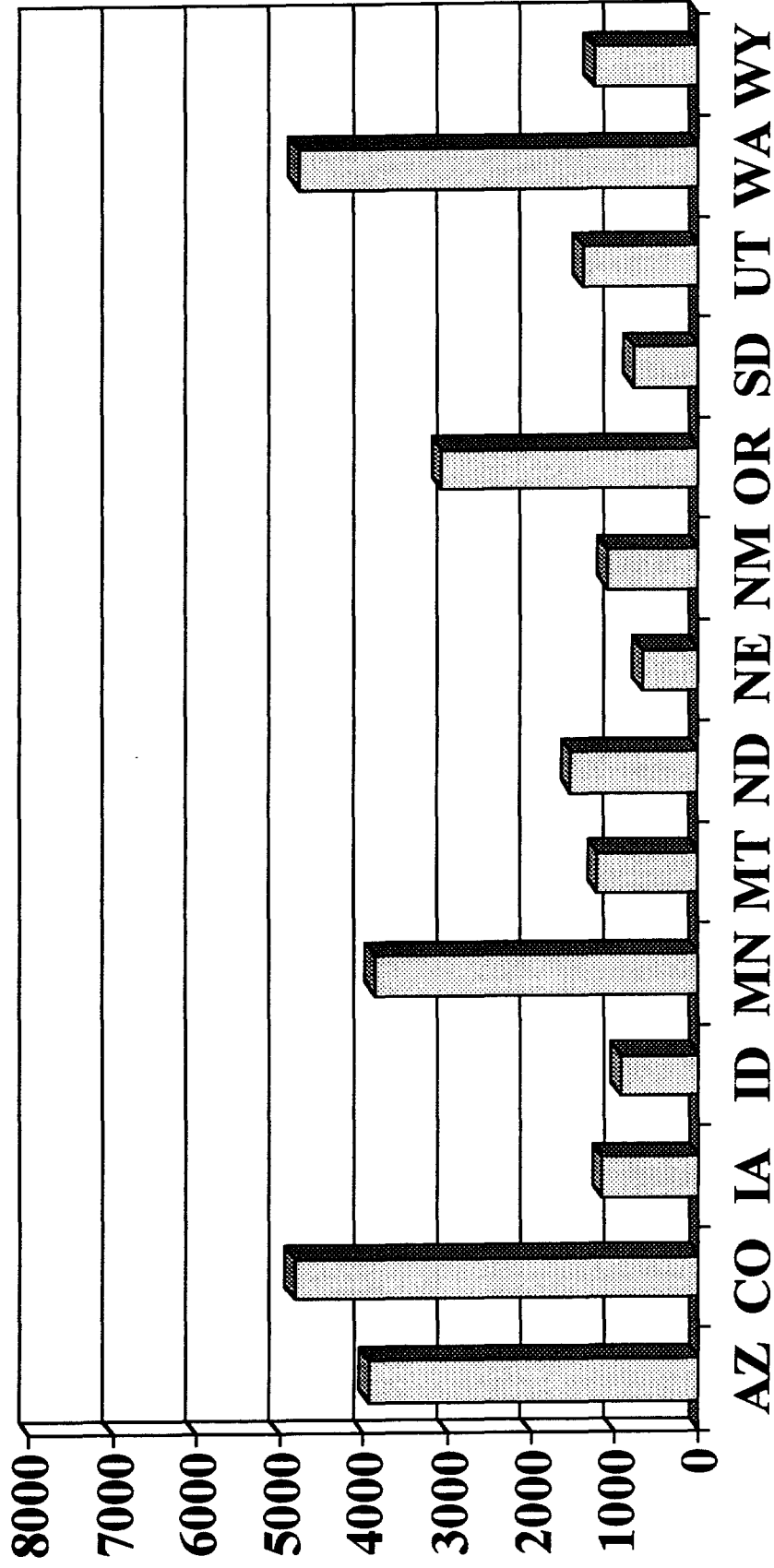
- To meet the intent of Congress fair compensation needs to address the realities of both metro and rural environments
- No subsidies - structural or non-structural separation force us to function as a smaller separate company with the restraints of the larger LEC
- The individual components of the Act are being addressed separately but in reality are intertwined

U S WEST % Uneconomic Payphones



■ With PCC @ \$0.284

U S WEST Uneconomic Payphones



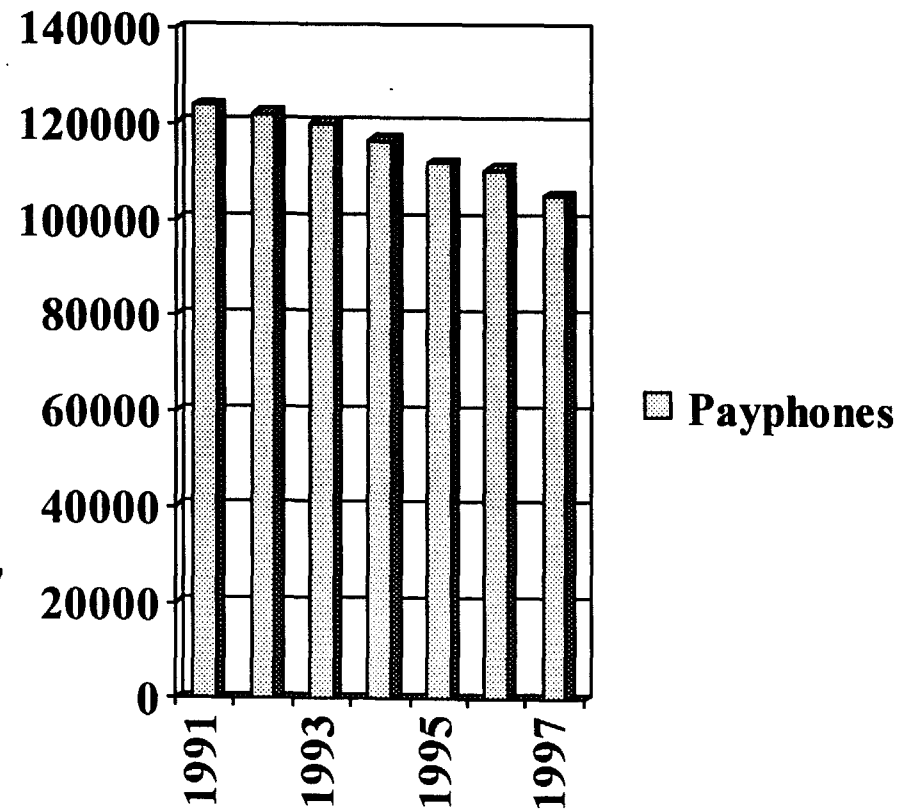
■ With PCC @ \$0.284

Market Place Conditions

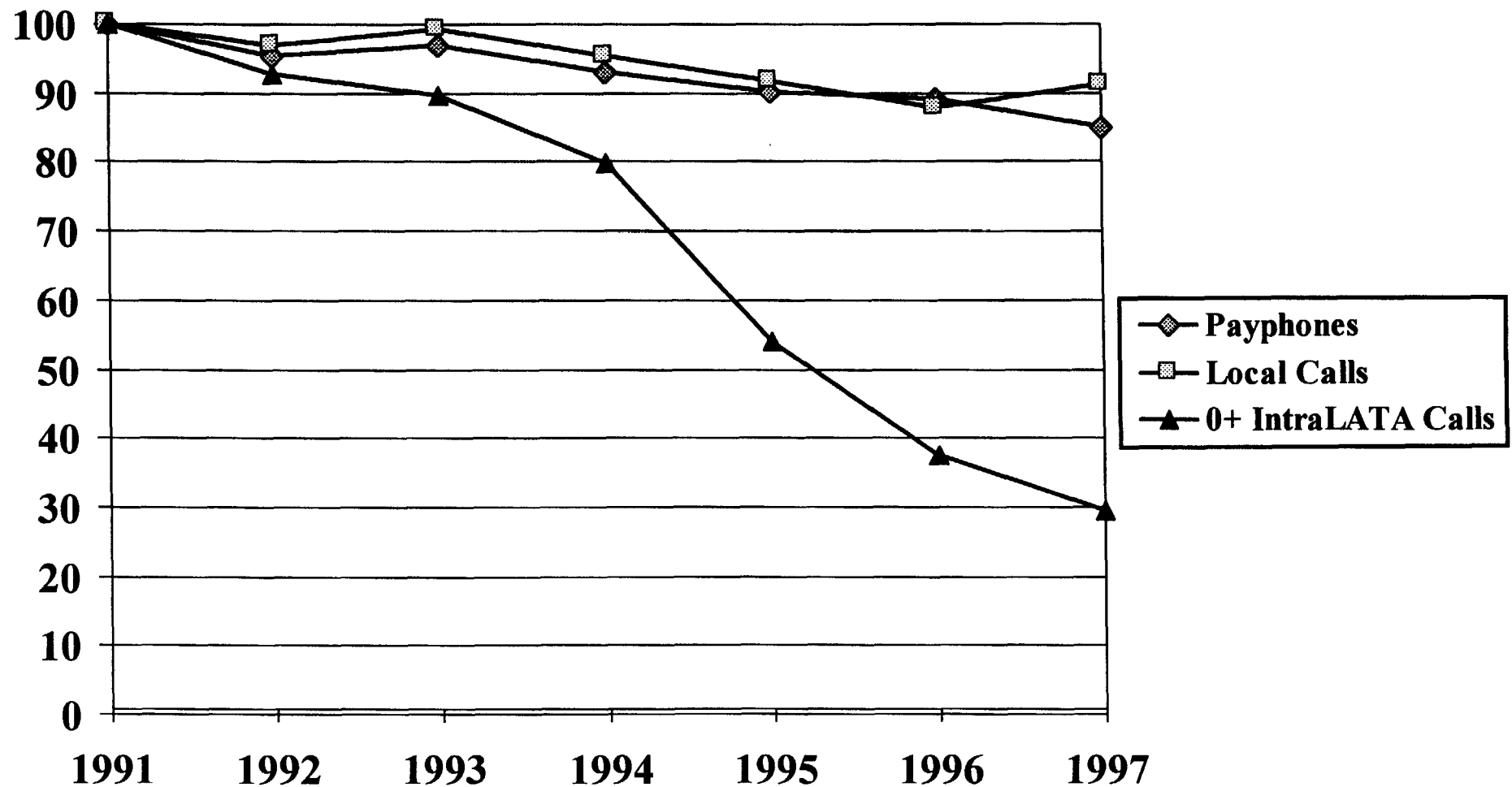
- Payphones are highly competitive in high traffic areas
 - Lower level of competition in lower traffic rural communities
 - Lower traffic areas are more dependent on per call compensation
- Alternative services such as cellular, PCS and pagers continue negatively impact the economics of payphones
- Toll continues to grow - Dial around and card alternatives are a significant part of the growth
- Traditional long distance providers are entering the payphone industry at prime sites to secure the PCC, PIC and the LD rate structure

Payphone Counts (excludes Inmate)

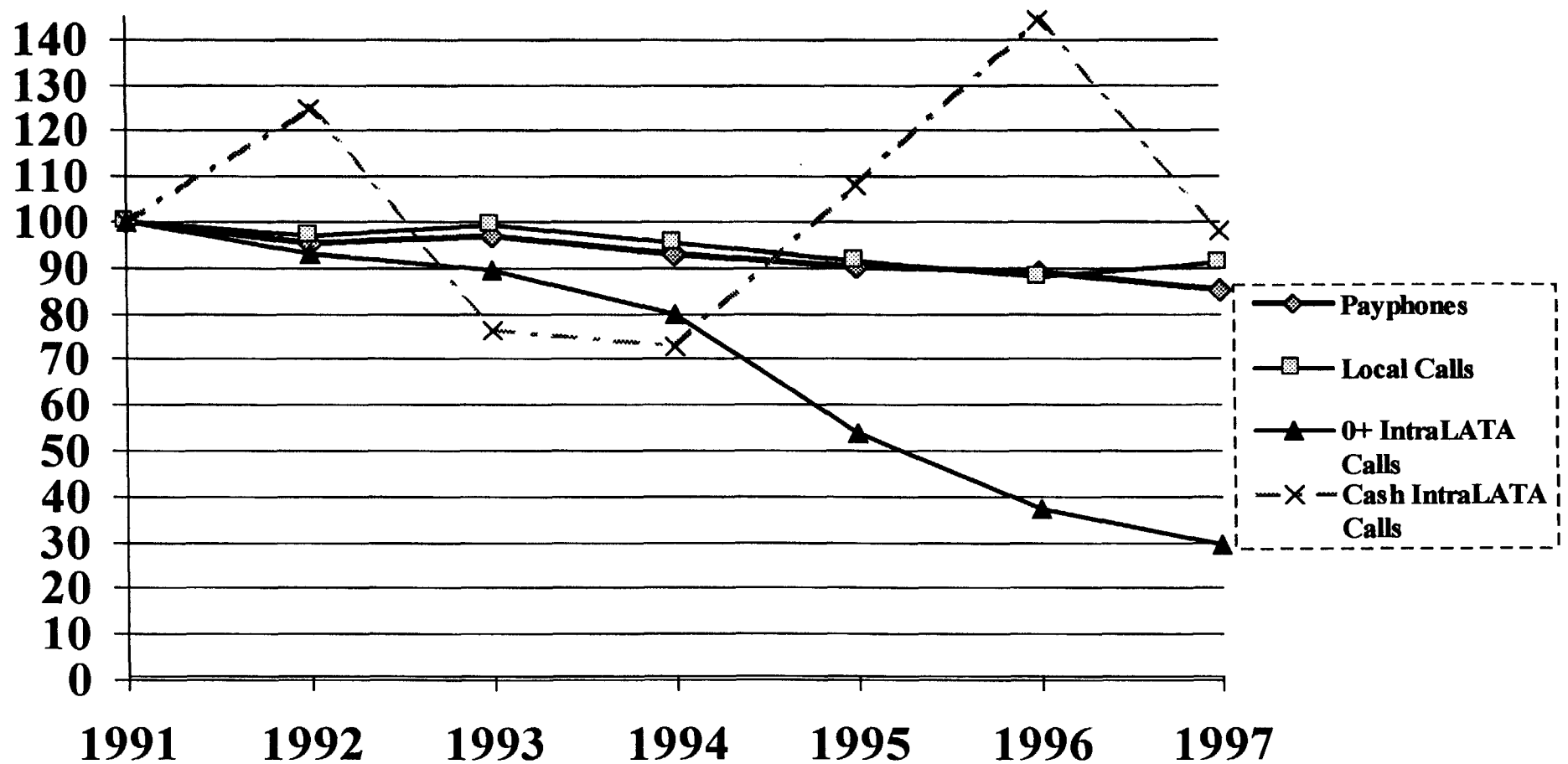
- 15% Decrease in Payphones
- 1997 removed 6,000 no profit payphones
- 63% Erosion of 0+ IntraLATA Calls
- 77% Decrease in Revenues through '97



Percentage Decrease in Payphones and Call Volumes



Percentage Decrease in Payphones and Call Volumes



Excludes Inmate Service

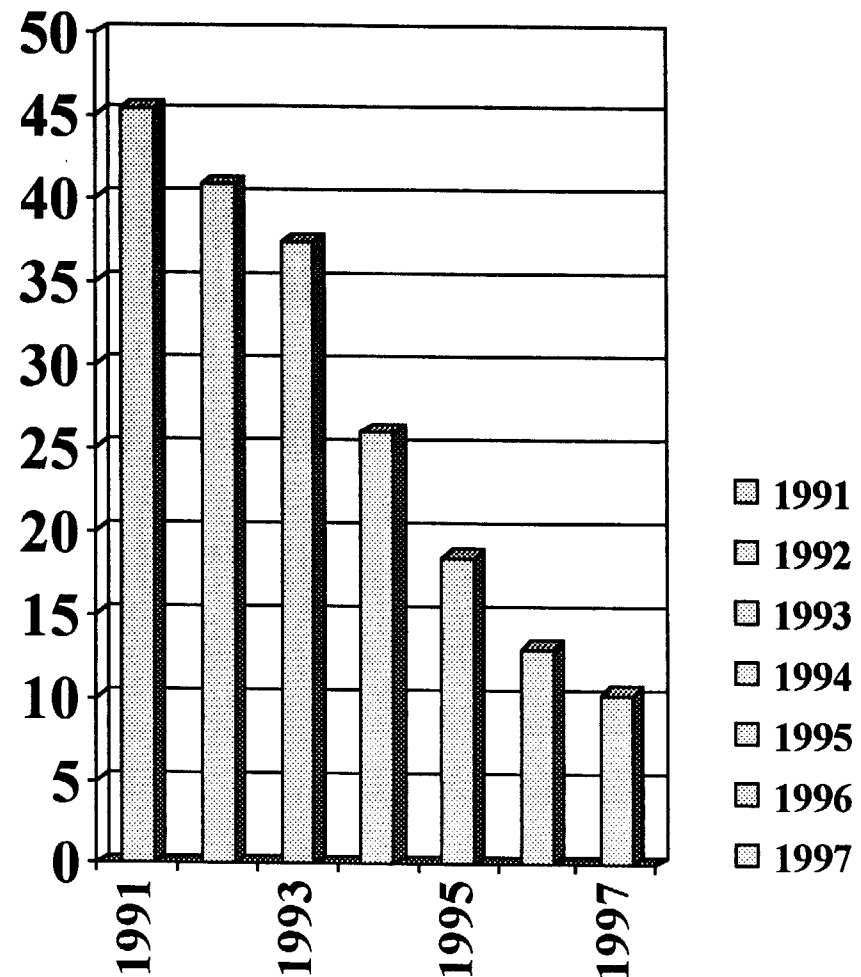
Market Place Realities

- Payphone economics impact much more than PSPs
 - Booth and set manufacturers
 - Operator Service providers and Billing Aggregators
 - General contractors
- Carriers are making extraordinary profits on payphones calls
 - Recent Business Decisions
 - Advertising Expenditures
 - Carriers Passing Per Call Compensation on to Consumers
 - No decline in dial around or 1-800 calling
 - Cost of business and goods sold for 1-800 subscribers

0+IntraLATA Revenues Payphones Only (excludes Inmate)

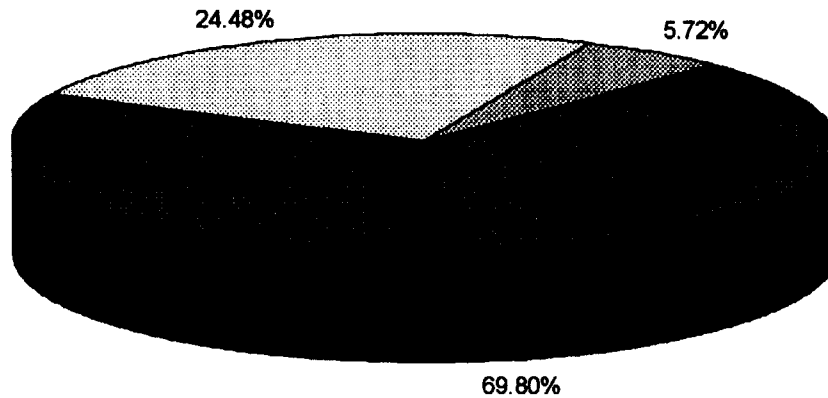
- 77% Erosion of 0+ IntraLATA
- 1991 Revenues = \$45.4 Million
- 1997 Revenues = \$10.3 Million
- Estimated '98 revenue = \$6.1 Million
- Dial Around Continues to Grow

* 1995 estimated - data error

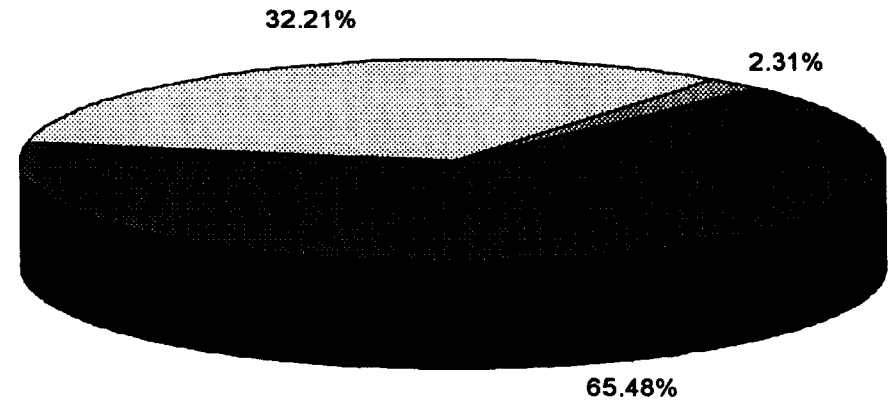


Call Distribution (Post Act)

1996



Current



■ Local
■ Carrier
■ USW IntraLATA

Corporate Realities

- Payphones are not considered cutting edge technology
- Payphones compete for financial resources with products such as;
 - PCS, ADSL
 - Data Solutions
- Payphones must be self sufficient and provide a reasonable contribution today and into the future
- Reluctance to invest in payphones because of economic uncertainty

Conclusion

- Current rate of \$0.284 PCC =
 - a loss in payphones, particularly in rural areas
 - increased pressure on local rates to recover cost (market dynamics related to wireless may not allow it)
- Lower PCC rate = wide scale negative impacts
- TOCSIA negatively impacts the ability of PSPs to collect PCC, there must be “teeth” in the rules to allow timely collection of Per Call Compensation